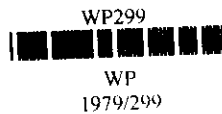


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ORGANIZATIONAL ALTERNATIVES FOR
INDUSTRIAL PROMOTION CORPORATIONS:
SOME CONSIDERATIONS

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Organizational Alternatives for Industrial Promotion

Corporations: Some Considerations

S R Ganesh

Introduction:

The objective of this paper is to describe and discuss various patterns of organization and their implications for functioning of industrial promotion corporations at state levels. This is based on the work done by the author with one such corporation several years ago. It is expected that this paper would stimulate discussions among policy makers to assess the available alternatives and choose suitable patterns on the basis of relevant criteria based on particular needs of the states in which these corporations are located.

A few years after its incorporation, Industrial Promotion Corporation (IPCO) was on the threshold of growth in a variety of areas. The experience of similar corporations involved in industrial development in other places both in India and abroad has been one of undertaking new areas of activities as and when the need arose. At a later date, these corporations have often rationalised these activities as being part of the mainstream of functions for which the corporations were originally set up. Very often such de facto activities have tended to obscure the de jure activities of the corporations. Partly, this has come about because the Articles of Association of such corporations are written in very general terms and provide considerable flexibility for interpretation. Partly, again, many new activities have been added on as a result of the demands placed on such corporations by the respective governments which, in the first place, set them up to aid in the process of industrialization of the state or country, as the case may be. The very

lack of clarity of the mission of the organization has resulted in these corporations taking on activities which, when carefully thought out, might have been considered as veering the corporation away from its mission. It is a rare corporation that undertakes an exercise to provide itself with guidelines for its functions and activities in the context of its role in the process of industrial development within the state or the country. Such an exercise in thinking through the various possible purposes of a corporation and their implications is helpful in providing the top management with a set of guidelines to plan, implement and monitor growth and development of the organization on a continuing basis. It would be useful to start out on such an exercise by considering both the de jure and the de facto roles of the corporation in the industrialisation of the State in which it is located.

ROLES OF IPCO

There are four distinct de jure roles of IPCO as delineated in its Articles of Association. These are:

- (1) An Investment Company;
- (2) A Promotion Company;
- (3) A Managing Company; and
- (4) A Service Company.

Besides these four de jure roles, IPCO has been entrusted with the role of developing backward areas thereby placing it in the position of an Area Development Board without its powers. This is the most important of its de facto roles, viz., an Area Development Company.

One of the major considerations in choosing the important roles of IPCO is whether there are other organizations in the State which perform the role. For example, the role of an Investment Company is predominantly performed by an investment corporation. Similarly the role of a managing Company is taken up by another corporation. Further, the role of developing industrial estates for the small scale industry is taken up by a third corporation which also performs the role of a Service Company to the small scale entrepreneurs although a similar role is not performed to that extent by the other two corporations for the medium-and large-scale industries. Neither of these are directly involved in the development of Areas for industrialisation within the State. On the side of the Government, the Directorate of Industries is involved to an extent in the supply of scarce materials like cement.

Therefore, IPCO has the option to take up three roles in all its permutations and combinations vis-a-vis the medium-scale private sector industries within the State. It also has the option to take up only one of these three roles and omit the other two. Another option is to take up one of the roles as the primary one and the other one or two as the secondary role(s). A third option is to give almost equal importance to two or more roles. All these options have implications for both the identification of the purpose as well as the pattern of organization for IPCO.

The three roles which IPCO could perform vis-a-vis the medium-scale private sector industry in the state are:

- (1) A Promotion Company
- (2) A Service Company and
- (3) An Area Development Company

Of these three roles the role of Area Development Company is to act as an instrument of Government primarily in the physical development of specified areas within the state and only secondarily to assist in the process of industrial development of the area. This is because of the magnitude of resources that have to be deployed in the physical development of an area and the need for emphasizing infrastructure development as a sine qua non of industrialisation. The role of a Service Company presumes identification of entrepreneurs and also presumes infrastructure development. The services are primarily directed toward the entrepreneur and possibly toward clients. Such clients could include other organizations including agencies of Government who could draw on the expertise that is implied in the role of a Service Company. In contrast to the roles of an Area Development Company and a Service Company, the role of a Promotion Company is more comprehensive and is therefore more nebulous. One of the ways to grasp the role of an Industrial Promotion Company is to list out common expectations of such an organization. The most important and relevant expectations for a promotion Corporation like IPCO could be the following:

- (1) Advising the State Government on alternative industrial development policies.
- (2) Advising the Government of the effects of the State's industrial development programme on general socio-economic policies in areas such as unemployment, technical education etc.
- (3) Creating an interest in industrial development in the population of the State, in general, and also among the important political and industrial leaders within the State.
- (4) Creating an atmosphere that encourages private entrepreneurs and therefore private investment.
- (5) Creating an active interest in the State's industrial

opportunities in the investing communities both within and outside the State and welcoming them to set up industry in the State.

- (6) Conducting systematic, broad surveys of industrial possibilities by sectors in relation to the efficient utilisation of the State's resources and also conducting specific industry studies to identify opportunities for improving and expanding present industries, and for establishing new industries within the State.
- (7) Evaluating the technical, economic and financial feasibilities of industrial projects, including the marketing and management aspects. Promoting projects of high feasibilities with specific potential entrepreneurs both within and outside the State.
- (8) Providing technical assistance to entrepreneurs in preparing projects for investment review and providing technical, engineering legal, accounting, governmental liaison (general expediting services) and other professional services to entrepreneurs in planning, project implementation and operation of units.
- (9) Creating industrial areas or estates, construction of factories for sale or rent, and provision of infrastructure services.
- (10) Providing financial assistance and incentives.
- (11) Improving industrial production through support of training programmes, particularly, for technical, supervisory and management personnel.
- (12) Providing technical and management advisors to the entrepreneurs who have gone into production either from within the corporation or from a panel of professionals approved by the corporation.
- (13) Carrying out of such industrial research as the technical feasibility of commercial production of new products from the primary products of the State.
- (14) Creating pilot plants for further experiments, or for continued commercial operation by the government or for sale to private entrepreneurs.
- (15) Providing special services for medium scale private entrepreneurs specially in the area of procurement of scarce materials.

Thus, the role of a promotion Company is comprehensive enough to accommodate the roles of both an Area Development Company and a Service Company. Given the need of the State for a company to undertake all

the three roles vis-a-vis the medium-scale private entrepreneurs, it is important that IPCO consider Promotion as its primary role and Area Development and Services as Secondary to Promotion. With Promotion as the primary role, it is possible to identify three distinct alternative purposes for IPCO.

ALTERNATIVE PURPOSES FOR IPCO

In arriving at a durable and meaningful purpose for IPCO it is important to consider two criteria for selection:

- (1) Whether the purpose is more of an on-going or eternal nature rather than of a one-shot or of a temporally unstable nature; and
- (2) Whether the purpose as chosen provides a distinctive direction of development for the corporation in relation to other organizations involved in industrial development.

The three alternative purposes in order of increasing degree of complexity and comprehensiveness are:

- (1) Promotion of entrepreneurs;
- (2) Promotion of industries; and
- (3) Promotion of factors of production.

It would be observed that promotion of industries subsumes promotion of entrepreneurs and the promotion of factors of production as a purpose provides greater stability over time for development and growth of the corporation. It also has inherent in it the dynamic concept of the varying importance of different factors of production at different points of time in the industrial development history of the state. Therefore it satisfies criterion "1". Since there are other corporations involved in promotion of entrepreneurs and industries within the State, but no corporation distinctly identified with promotion of factors of production, the choice of this as the guiding purpose for IPCO will satisfy criterion "2" also. It also provides clear guidelines for developing a distinctively different pattern of organization than is presently available within the other corporations and agencies in the State.

Among the more important of the various factors of production are

the following:

- (1) Industrial policy;
- (2) Infrastructure (including industrial areas and power supply)
- (3) Technology;
- (4) Material supplies (including vital construction and raw materials) and
- (5) Management.

Factors like funds and labour are important but IPCO does not have a major contribution for provision of funds to entrepreneurs and could be involved only indirectly in ensuring suitable supply of labour through training programmes. The Industries Department does have a role to play in promoting appropriate policy to attract investment to the State. Similarly the Directorate of Industries has a limited role in the promotion of material supplies. Therefore, insofar as the medium-scale private entrepreneur is concerned there is considerable scope for a corporation like IPCO to promote the five factors listed above. This is particularly so because no other corporation is equipped adequately for such promotion. Therefore, in selecting a suitable organizational pattern to provide for the growth and development of IPCO it is imperative to keep the promotion of factors of production as a constant guide and touchstone. The more important of the criteria for selection of an appropriate organizational pattern are the following:

- (1) Whether the organizational pattern is in line with the primary role and purpose of the corporation.
- (2) Whether the organizational pattern provides adequate scope for performance of the other role of the corporation beside its primary role.
- (3) Whether the organizational pattern serves as an instrument for translating government policies into action in the process of industrial development of the State.
- (4) Whether the pattern is in line with the projected trends of industrial development in the State.

- (5) Whether the pattern is complementary and supplementary rather than overlapping with the organizational patterns of the other institutions and agencies involved in industrial development both at the State level and at the National level.
- (6) Whether the organizational pattern satisfies the needs of the medium-scale private entrepreneurs.
- (7) Whether the pattern is in line with the aspirations of individuals in functions key to the achievement of the purpose of the corporation.

ORGANIZATIONAL ALTERNATIVES

In linewith the possible roles, de jure and de facto, for IPCO there are distinct alternatives for organization. Since the corporation has very limited role as an Investment Company or as a Managing Company, organizational patterns emerging out of these roles are not feasible alternatives. This essentially means that investment activities of the company and therefore, the investment function within the company has only a very limited role to play in achieving the purpose of the corporation.

Given the other three roles namely that of Promotion, Service and Area Development, there are four possible organizational patterns worth considering. These are based on:

- (1) Industry wise grouping
- (2) Industrial area-wise grouping
- (3) Service-wise grouping and
- (4) Functional grouping

Of these four alternative groupings the industry-wise and area groupings are not feasible and also not in line with the purpose of the corporation. An industry based organization is likely to subordinate promotional and service roles of the corporation and also is likely to result in lop-sided growth of industries when clear and specific policies for industrial development are not available. Although the State plan for industries provides some useful guidelines to evolve an industrial pattern for the state, it does not provide sufficient guidelines to warrant IPCO going in for an industry based grouping.

Further, IPCO operates within the confines of one particular State and, therefore, the need for taking a more balanced view of industrial development can be better obtained when an industry based grouping is not chosen, particularly, when the volume of operations in each industry group may not warrant such a choice.

Similarly, an industrial area-wise grouping is not feasible since it again relegates the promotional and service roles of the corporation to a secondary position. Again, there are dangers of imbalances in the industrialisation pattern through focus on development of industrial areas. The thrust, if an area-wise pattern is chosen, would be to fill in the industrial areas being developed, at considerable cost, with units irrespective of whether these are in line with the needs of that area or whether these are in line with the implementation of industrial policy. The pressure for such imbalances are very high in such a pattern of organization.

The two more feasible alternatives are the service-wise grouping and the functional grouping. Both of these provide means for translating the purpose of IPCO into action. Arising out of the purpose of promotion of factors of production within the State, the following important activity areas are amenable to grouping either service-wise or function-wise.

- (1) Industrial policy
- (2) Market survey
- (3) Information services
- (4) Feasibility studies
- (5) Industrial research
- (6) Area Development and maintenance
- (7) Entrepreneur development
- (8) Financing and incentives provision
- (9) Management services
- (10) Industrial services including material supply services.

Personnel and administration as well as internal accounting are two activity areas which are common to all organizations and, therefore, after

choosing a suitable organization pattern these can be appropriately grouped.

The service-wise grouping offers two alternatives. Under one alternative the following groups of services could be considered.

- (1) Promotional services covering 1 to 5 and 7 of the activity areas above.
- (2) Financial services including financing, following and incentives provision.
- (3) Management services
- (4) Infrastructure and material supply services covering activity areas 6 and 10 above.

Another possible service-wise grouping is the following:

- (1) Entrepreneurial services including 1 to 5, 7 and 9
- (2) Project implementation services including 6, 8 and 10.

Whereas the first alternative in service-wise grouping provides for an important role of IPCO in industrial policy and enlarges the clientele for its services, the second alternative, by and large emphasizes services to the entrepreneur and underplays the service role of IPCO to other clients like the State Government, its agencies, the other institutions involved in industrial development both within the Government and outside the Government. The first alternative emphasizes the service role for promotion of the factors of production. The second alternative is quite compact but de-emphasizes the balanced promotion of the factors of production over time. Given the purpose of IPCO the first alternative is more appropriate than the second.

The functional grouping of IPCO differs not much from the service-wise grouping in that the following groups emerge:

- (1) Promotion to include 1 to 5
- (2) Entrepreneur Development to include 7, 9 and 10
- (3) Infrastructure Development to include 6

- (4) Finance function to include financing, follow up, incentives and internal accounting.
- (5) Administration, Personnel and Secretarial functions including legal functions.

Under this functional grouping, the promotion of Industrial services including material supply services tends to be under-played. It is possible, however, to club it together with Entrepreneur Development and provide for promotion of this factor.

Under the service-wise grouping promotional services subsumes entrepreneur development and under the function-wise grouping entrepreneur development figures separately as an important function. In the context of projected growth and development of the corporation, management services is only a part of entrepreneur development and such services as relate to consultancy for market, technical and economic feasibility studies are more appropriate as means for promotion of industrial policy. Therefore, the functional grouping appears to provide a better alternative for the future growth of IPCC.

Of the five functions listed, the most critical function for the achievement of the purpose of IPCC is the promotion function. Therefore, it should be given due importance in terms of the designation of the person heading that function. The other three functions except that of Administration, Personnel and Secretarial functions have an equally important role in assisting the promotion function. Given the size of the organization, it does not appear feasible to group the functions further, for example, to have the three other functions report to the head of the promotion function. This is also quite in line with the purpose of the corporation which provides for promotion of different factors of production. This alternative provides scope for varying emphasis on different functions at different points of time depending on the demands placed on the corporation, to take a more or less active role in promoting one or the other factor of production.

The accompanying chart outlines the functional organizational

pattern for IPCO with one set of designations. These are intended merely as guidelines for discussion rather than as definitive recommendations. The chart indicates the organization in its fully developed state. It is important to remember that this represents the end-product of years of planned growth. The task of the top management over the years would be to guide the organization in the direction of development indicated by the chart. This would involve planning the transitional states of the organization.

FUNCTIONAL ORGANIZATION PATTERN - HIGHLIGHTS

The functional organizational pattern has several important features. The most important of these is the highly qualified and competent professional staff to take charge of the 18 critical positions (excluding that of the Managing Director) as outlined in the accompanying chart. Such professional staff has to be acquired over a period of years as the organization grows and given suitable opportunities for development. Basically, there are four levels in the organization namely that of the Managing Director, The Deputy or Assistant Managing Director, or the General Manager or the Deputy or the Assistant General Manager, the Manager, and the Assistant Manager or Analyst. In the organization there is a clear number two position below the Managing Director.

Tables 1 and 2 provide guidelines for the Lines of Promotion (LOP) and the qualifications for selected posts. The functional organization provides mobility at the Manager level across the promotion and Entrepreneur Development functions. There is also the possibility of mobility for both the project Analyst and the Financial Analyst across Promotion and Finance functions. All the other posts are quite specialised as might be expected of a functional organization pattern.

There are seven new activity areas which are found only in a very rudimentary state of development in the present IPCO organization. These require some explanations.

- (1) Industrial policy and industrial surveys are critical insofar as IPCO has a role in promotion of industrial policy for the state. The intention should be to develop an Economic

Research Cell which can evolve policy alternatives for the consideration of the state Government. This Cell should also undertake studies on the effect of implementation of different policies, trends in the industrialisation pattern of the State and the scope for future industrial development.

- (2) Market studies is a very special area requiring the whole time attention of a competent Analyst. The activities in this area should comprise of specific product and specific market studies prior to selection of a project. Over a period of time, a situation should result when no project should be considered without the existence of a market report.
- (3) Information services is an area the means to which lie in an industrial data-bank, a well developed technical and management library, and appropriate facilities for documentation, storage retrieval reproduction and dissemination of information through publications and other media. Over the years, this area should develop as the pivot of promotional activities of the corporation. The quality of Information Services would be reflected in the quality of work carried out by all the four other people under the Promotion function.
- (4) Project selection and feasibility studies are already being done by IPCO. The future pattern should be to provide intergrated services in the area of project analysis and selection wherein both technical and economic feasibility should be considered. This should assist in the financial appraisal being confined to checking whether the project is worth financing within the policy guidelines followed by IPCO. This would release the Financial Analyst for focussing more on follow up and monitoring.
- (5) Industrial Research and Pilot Plants could become a very important instrument in promotion over a long period of time. The intention should be to promote such industrial research as relate to commercial production of new products not undertaken by entrepreneurs because of the risks involved. Once commercial production is proved feasible, IPCO should make arrangements for full scale production through interested entrepreneurs. It should not undertake commercial production itself and thereby get into the role of a Managing Company.
- (6) Management Services and Entrepreneur Training have to be primarily provided by the Senior Managers, namely the Entrepreneur Development Manager, the Finance Manager and the Head of promotion function. The Assistant Development Manager could provide the necessary support but the leadership has to come from the Entrepreneur Development Manager. The Credibility of any con-

sultancy services on management provided by IPCO would rest on the competence of these three senior people. Since consultancy is part of the development of an entrepreneur, especially, the new entrepreneurs, it has been placed under the Entrepreneur Development function.

- (7) The maintenance and administration of areas and estates developed by IPCO would become an important area of activity and would need special attention of an individual. To him could also be attached the function of acquisition of areas, where necessary. Since acquisition of area is, by and large, on a contract basis with the State Government, this should not come in the way of his normal functions of maintenance and administration of estates.

It is assumed that much of the work in the area of material supplies would be in the form of obtaining allotments from the Government or concerned agencies and organizations, and regulating the distribution, rather than directly handling the materials. Therefore, this has been placed under an Assistant Development Manager who has also been entrusted with general expediting work to assist the entrepreneurs.

The organization below the Assistant Manager level in the Entrepreneur Development, Infrastructure Development and Finance functions has not been outlined, as also the organization below the Manager level in Promotion and Administration. This is because a addition of people at these levels is a direct function of the volumes of work handled by the corporation and hence the different functions. As and when the need arises, based on the work load IPCO should add on new personnel under the functional groupings.

DEVELOPING THE ORGANIZATION

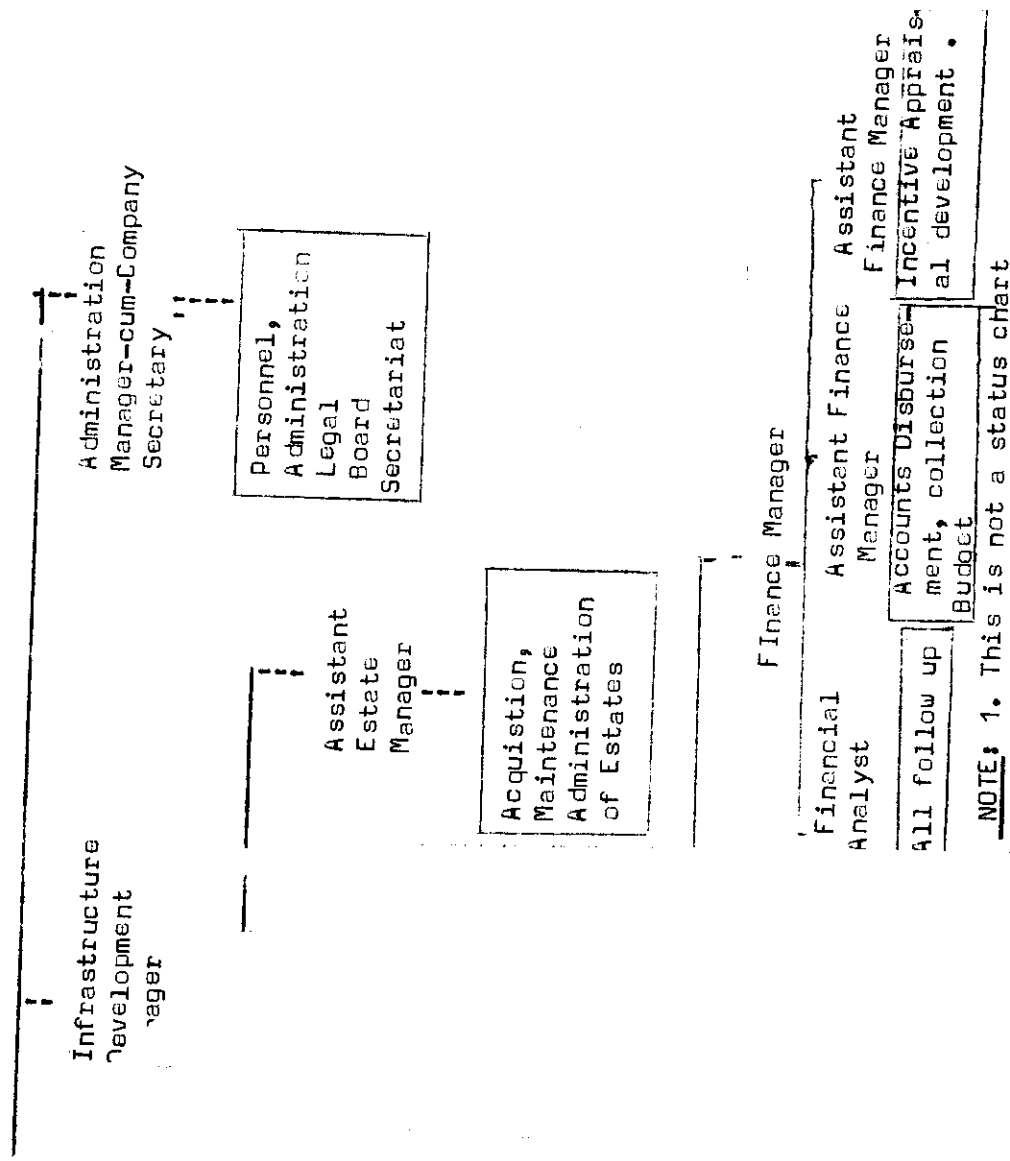
There are several strategic choices which concern the adoption of the functional organizational pattern. Some of these relate to the present organization and the people in the present organization and others are choices for development of the different functions. The more important of the issues are the following:

- (1) Developing the corporations' cadre in each function as opposed to reliance on deputationists.
- (2) Rationalization of designations for different functions in the organization at different levels.

- (3) Rationalization of personnel guidelines concerning qualifications, pay, promotion, training, allowances, leave etc.
- (4) Development of internal competence in different functions versus reliance on outside experts, for example for management services.

It is not sufficient to choose one particular pattern of organization but it is also important to plan the development of the organization. This would involve development of feasible organization structures from time to time within the constraints of availability of suitable personnel and other operational constraints of the corporation. These organization structures which are more feasible than desirable, should be treated as such, and the desirable pattern should not be lost sight of. All organizational decisions should be governed by how they fit into the functional organizational pattern rather than by expediency and circumstantial compromises. Even when these are unavoidable, these should be treated as temporary deviations. The effort of the top management should be to bring the organization back to the appropriate pattern of development as early as possible. This note is intended as a guide for planning, developing and monitoring the growth of the corporation.

* * * * *



NOTE: 1. This is not a status chart

2. Boxes indicates major functions.